

**MEMORANDUM
MINNEAPOLIS FINANCE DEPARTMENT**

October 16, 2003

To: Mayor and City Council

Prepared by: Patrick Born, Finance Officer

Approved: John Moir, City Coordinator

Re: Funding Plan for LSGI-2 and Crablex Litigation

This memorandum will be discussed at the Ways and Means/Budget Committee meeting on October 20, 2003. Action on this recommendation is requested during budget mark-up for the 2004 budget.

Background

The self-insurance fund has paid the LSGI-2 judgement in September 2003 and is expected to be the source from which payments will be made in the 4th quarter 2003 related to the settlement of the Crablex litigation. These payments, expected to total approximately \$10 million, will further exacerbate the negative cash position of the self-insurance fund.

This memorandum proposes a plan to restore the cash position in the fund.

Proposed Funding Plan

The proposed plan to restore the cash position in the self-insurance fund is:

- **Local contribution fund (\$4 million).** The local contribution fund will transfer \$4 million to the self-insurance fund not later than 12/31/2003. The amount is approximately 50% of the cash position in this fund.
- **General fund (\$6 million).** The City's general fund will transfer not less than \$4 million to the self-insurance fund prior to 12/31/2003 and will increase the scheduled transfers between 2005 and 2008 by \$500,000 annually. The 2003 transfer is expected to result in an unreserved fund balance at 12/31/2003 that is 15% of general fund revenues. Actual fund balance in excess of \$39 million (15% of general fund revenues) will be transferred to the self-insurance fund to reduce the 2005-2008 transfers.

This plan:

1. Balances funding between development and general resources.
2. Follows City Council policy directing excess general fund balances to reduce internal service fund deficits.
3. Maintains the General Fund balance at 15% of general fund revenues (City policy is a minimum balance of 10%).
4. Restores 80% of the cash position in the self-insurance fund immediately with the balance restored by 2008.
5. Creates no impact to the 2004 budget.

Information about the self-insurance, local contribution, and general funds follows.

Fund Financial Information

	General	Local Contribution	Self-Insurance
Purpose	General costs of City government not funded by restricted revenues. Primary businesses supported include police, fire, infrastructure, and related management support.	Original purpose to fund local contribution for tax increment projects. State law was changed in 2001 to eliminate the local contribution requirement.	Pay claims, settlements, judgements, and related administrative costs relating workers compensation, tort, and other liabilities.
Cash balance (12/31/02)	\$38.5 million	\$7.6 million (current cash balance is \$8.1 million)	\$(6.6) million
Fund balance (12/31/02)	\$45.6 million	\$7.7 million	\$(43.3) million
Funding source	Property taxes, LGA, other general revenues	Non-common project revenues, including parking revenues from Depot.	Transfers from other City funds according to workout plans. General fund provides primary financial support.

cc: John Moir, City Coordinator
Lee Sheehy, Director – CPED
Tammy Omdal, Director – Management and Budget
Charles Elliott, Controller
Greg Johnson, Accounting Manager (Internal Service Funds)
Jack Kryst, Director – Development Finance